

Memorandum

Date : December 22, 2009

To : Dale E. Bonner, Secretary
Business, Transportation and Housing Agency
980 9th Street, Suite 2450
Sacramento, CA 95814-2719

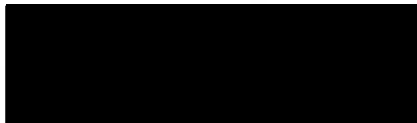
From : George Valverde, Director
Department of Motor Vehicles

Subject : Review of the Systems of Internal Control

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code Sections 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 31, 2009.

As statutorily required, the Department of Motor Vehicles (DMV) is in compliance with Government Code Section 12439. The DMV has reconciled the State Controller's Office Report on Abolished Vacant Positions per Government Code 12439 and completed the Schedule 7A reconciliation to include any necessary adjustments to the budget documents.

Sincerely,



GEORGE VALVERDE
Director

Enclosure

**2009 FISMA BIENNIAL REPORT
DEPARTMENT OF MOTOR VEHICLES
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2009 BIENNIAL FISMA REPORT

BUSINESS, TRANSPORTATION, AND HOUSING AGENCY DEPARTMENT OF MOTOR VEHICLES ORGANIZATION CODE: 525

INTRODUCTION:

In accordance with the Financial Integrity and State Managers Accountability (FISMA) Act of 1983, The Department of Motor Vehicles (DMV) submits this report on the review of our systems of internal control for the biennial period ended December 31, 2009. As required by FISMA, DMV is responsible for maintaining effective systems of internal accounting and administrative program controls as an integral part of its management practices, and the systems are evaluated on an ongoing basis. In 2008, the Internal Audits Branch (IAB) of DMV performed a department-wide risk assessment to determine whether internal accounting and administrative program controls are functioning as intended to mitigate risks to the department. This report is completed based on the review results for the most vulnerable areas identified during the risk assessment.

BACKGROUND

The mission of the Department of Motor Vehicle (DMV) is to effectively and efficiently serve the public by registering vehicles to identify and authorize use, and title vehicles to establish ownership interest; license and regulate the motor vehicle industry and California drivers; establish true identities to ensure the validity of licensed drivers and identification (ID) card holders; and secure and protect internal and external confidential information. The goals of DMV which are to provide service, safety, security and protection are carried out by 8,442 employees.

Additionally, DMV licenses and regulates vehicle-related businesses such as automobile dealers and driver training schools, and collects certain fees and tax revenues for State and local government agencies. The DMV operates 228 facilities, which include customer service field offices, telephone service centers, commercial licensing facilities, a headquarters, and driver safety and investigations offices. These DMV facilities operate multiple programs, which include vehicle/vessel identification and compliance, driver license and personal identification, driver safety, occupational licensing and investigations. These programs support the Department's mission to protect the public's interest in vehicle management, ownership and safety as well as regulation of the motor vehicle industry and the protection of personal information and identity.

The Executive Office of the DMV provides the guidance and leadership for the department's nine divisions and seven executive offices that provide staff support to the executive team. The executive team guides the divisions with a holistic perspective and understanding of the interdependencies of DMV's varied functions. The entire management team is consistently involved with assessing and strengthening the department's systems of internal accounting and

administrative program controls, while providing effective communication between management, staff and business partners. In general, DMV managers have the required knowledge, experience, authority and training to perform duties and responsibilities and to empower all employees at appropriate levels.

VACANT POSITIONS:

As statutorily required, the DMV is in compliance with Government Code Section 12439. The DMV has reconciled the SCO Report on Abolished Vacant Positions per Government Code 12439 and completed the Schedule 7A reconciliation to include any necessary adjustments to the budget documents.

RISK ASSESSMENT:

In accordance with the FISMA requirements, all state entities should adopt a risk-based approach to focus their reviews on those areas most vital and at risk within the organization. To comply with the revised audit guidelines, the Internal Audits Branch (IAB) implemented and performed a department-wide risk assessment and employed a risk-based approach to prioritize and identify the department's auditable areas for the period July 1, 2008 through December 31, 2009.

The purpose of the department-wide risk assessment was to evaluate the DMV from a strategic perspective, and identify and prioritize potential areas which pose the greatest risks and vulnerabilities to the department. In order to accomplish these objectives, the IAB adopted a risk-based approach to understand the department's environment, mission-critical program objectives, and business functions to discover where the greatest vulnerabilities lie. Our risk assessment included a review of industry-specific risk factors; prior audit findings reported by the Bureau of State Audits, the Department of General Services, and IAB; interviews with executive management and key staff; and identification of accounting and administrative controls critical to DMV's mission. Our strategy also identified any mitigating controls or lack thereof, evaluated whether mitigating controls are functioning as intended, and identified and recommended controls that need to be in place to mitigate risks.

Our overall methodology included the following:

- Developed and distributed a risk self-assessment questionnaire to divisions to identify the significant programs, administrative issues and risks.
- Analyzed the questionnaires completed by various divisions and verified the responses.
- Researched and reviewed divisional base budget documents and organizational charts to learn the flow of work and who reports to whom.
- We reviewed prior audit results for potential risk exposures.

- We also identified other audits mandated by State and Federal regulations, compliance and grant provisions.
- Determined risk factors, guidelines, risk ratings and weighted values to be applied to each division's programs, processes, and/or activities.
- Based on the results of our evaluation, we tabulated the final risk rankings and prepared a preliminary priority list of potential auditable areas.
- Consulted with division management to validate the reasonableness of the proposed auditable programs, processes, and/or activities.

In order to document the risk analysis, we observed operations, reviewed policies and procedures, and conducted interviews with DMV headquarters staff, and management. To test controls, we inspected, on a sample basis, accounting and transaction records, and contract files. Applicable laws, regulations and internal policies and procedures were also reviewed.

During the course of our assessment, we evaluated and mapped the department's programs, processes and activities to key risks. We solicited management's input on their most critical risks and program concerns, the effectiveness of their risk management endeavors, and prioritize the most critical business functions and risks relating to the Department's mission and strategic goals. We identified risk factors, determined the significance and likelihood of these risks, and assessed the existence of corresponding mitigating controls or lack thereof.

Our analyses were developed based on the State Administrative Manual, Government Codes, State Information Management Manual, best practices, and DMV's policies and directives. Based on the risk assessment results, management consultations and input, we prioritized and identified high risk programs, processes and activities to audit during the period July 1, 2008 through December 31, 2009. **APPENDIX A** at the end of this report shows the list of audits performed. The four issues disclosed are described below, along with their corrective action plans.

EVALUATION OF RISKS AND CONTROLS:

Issue #1: Management of Accountable Inventory Needs Improvement

Accountable inventory represent a significant portion of DMV assets, impact many core functions, and are considered same as cash. The DMV processes over 40 million accountable items each year. This includes License Plates, Registration Certificates, Vehicle Stickers, Dealer Licenses, Disabled Persons Placards, and more. The Accountable Inventory Management Systems (AIMS) Unit is responsible to perform analysis of inventory data processed in the Oracle system and to generate a "Monthly Exception Report" (MER). The MER is sent to DMV Field Operation Divisions (FOD) managers who have discrepancies (damaged, missing or voided) that are over one percent (1%) of the total accountable items issued on a workday. The managers are required to provide an explanation of each discrepancy and send their responses to the AIMS unit in a timely manner. The AIMS unit is required to justify and reconcile managers' responses and that data is used for forecasting purposes. Our review disclosed that FOD managers do not respond within established time frames.

In addition, participants of the Business Partner Automation (BPA) Program are required to perform a physical inventory on a quarterly basis and submit a "Physical Inventory Report" (PIR) to the AIMS Unit for review and reconciliation of the inventory data in the Oracle system. Our review disclosed that inventory reports submitted by BPA participants for the 2007/08 fiscal year are still pending reconciliation.

Accountable items represent a significant portion of assets to the department. Therefore, managing the acquisition, storage, and distribution of accountable inventory is critical to controlling costs, operational efficiency, and mission readiness. As the inventory data in Oracle system is not justified and reconciled in a timely manner, the departmental inventory data is not objective and reliable.

Corrective Actions for Issue #1:

After discussions with FOD, the AIMS staff identified the followings steps to correct this issue:

- a. Clarify and reiterate to field offices the requirements to respond appropriately and timely to inventory exception reports.
- b. Increase distribution of the notification including Regional Managers and Administrative Assistants, and coordinate with FOD to follow up with the late reports.
- c. The AIMS Unit will redirect all staff to reconcile the oldest PIRs workload. Request former AIMS Unit employees in assisting with the reconciliation workload when time is available.
- d. Using the newly developed tracking report to monitor physical inventory reports status. All staffs are required to provide status of all open inventory reconciliations.

- e. To minimize the misuse and excess waste, the forecasting methodology will incorporate all inventory data in the Oracle system including destroyed, damaged, voided data, on-hand quantities from field offices, auto clubs and business partner.

Issue #2: The Occupational Licensing Unit Does Not Track and Reconcile Its Accountable Inventory

The Occupational Licensing Unit (OLU) prepares their orders for accountable items and forwards them directly to the Forms and Accountable Items Section. The inventories are shipped directly to OLU's facility from DMV's Centralized Warehouse. The Centralized Warehouse then updates the inventory records in their warehouse database to release their responsibility of possession. Subsequently, OLU takes over the responsibility of possession and updates the shipment into the DMV Automated system for tracking any further distribution. In general, OLU issues more than 14 types of accountable items. Our review found that out of the 14, six items are manually recorded on a log for tracking, but no quarterly physical inventory has been performed for those six types of inventory.

Corrective Actions for Issue #2:

- a. The OLU will identify inventory issued, and establish the level of monitoring required for each type.
- b. The OLU will also consolidate inventory issuance to a single technician to perform the tracking and reconciliation for all the items issued in order to increase accuracy of reports and security for inventory.
- c. The OLU will revise the Quarterly Report process, and update the inventory issuance logs to record voided, destroyed and obsolete items.

Issue #3: Some Auto Club Branch Offices Processed DMV Transactions for Non-members

The Automobile Clubs (Auto Clubs) are authorized by the DMV under the California Vehicle Code to validate and issue registration cards and vehicle registration indicia for their members. Currently, there are three auto clubs and 166 branch offices. As a condition of this authority, auto clubs and their branch offices are required to adhere to the rules, regulations, standards and procedures set forth in the contract agreement established with the DMV.

We found that some Auto Club branch offices processed DMV transactions for non-members. As part of the training process, branch office new hires received authorization to process the issuance of disabled placards and plates for non-members. However, according to the terms of the Agreement, the processing of transactions for non-members is prohibited.

Corrective Actions for Issue #3:

The Auto Club Liaison notified all branch offices that under no circumstances are they to process transactions for non-members and ongoing monitoring will be established to ensure compliance. In addition, the branch offices have been informed to revise their DMV training materials and remove the exception of processing disabled placards and plates for non-members from their curriculum. Further, all internal resources, including procedural manuals will be reviewed and updated to emphasize the restriction to members only.

Issue #4: Succession Planning Challenges

DMV statistics as of December 31, 2008, show an anticipated critical loss of managers within the next five to ten years, as 67% of employees in managerial-designated critical classes are currently aged 50 or older. Of the employees in supervisory-designated critical classes, 53% are age 50 or older. Overall, 54% of the entire workforce are age 45 and older, and will be eligible for retirement within the next 5-10 years. Not only will positions be vacant, but technical and institutional knowledge, years of managerial and supervisory expertise may be lost if strategies with appropriate projects are not developed to mitigate this gap. Other challenges relating to succession planning include:

- Hiring of "young and new" staff with knowledgeable college background and education but limited state service experience.
- Learning curve in training staff.
- For budgetary purposes, a well rounded Budget Analyst should have the experience (at a minimum), of two years of developing the annual Governor's Budget. Shortfall and/or lack of knowledge will increase the problem of budgetary knowledge in compiling the budget each year.
- Training could be continuous if there is lack of cross-training amongst staff.
- As "young and new" staff seek opportunities for promotion and growth in other areas, this will lead the department in a constant "training" mode.

At the Investigations Division, there are 63 employees both in sworn and non-sworn capacities that are age eligible to retire as of 2009. The division is struggling to 1) retain tenured employees; 2) hire new investigators who want to work at reduced pay levels with limited mentorship and workloads that are backlogged and depressive; and 3) try to meet salary savings in permanent allotments that are already reduced.

Corrective Actions for Issue #4:

With regards to the challenges, DMV proactively initiated various training programs throughout the department with the purpose to enhance the service quality provided to the public.

- a. Cross Training Program, department initiated this training program of various assignments early in individual staff assignments and provided availability of tools and training classes to analyst.

- b. Upward Mobility, in order to improve succession planning and to encourage employees to promote within the department, DMV also offers a variety of upward mobility resources, including a handbook and department video series which help employees develop their careers, update their resumes, and provide tips on how to prepare for promotions.
- c. Analyst Training Program (ATP), with collaboration with Los Rios Community College District, this innovative program is designed to bring skilled junior analysts to journey level through instruction in essential analytical skills, critical thinking and project management. The program will teach on-site and customize coursework using DMV forms and materials such as legislative analyses, budget change proposals, and issue paper.
- d. Leadership Development Academy - Mid Manager Program, collaborated with the University of California, Davis Extension to create an in-depth Leadership Development Academy to teach select numbers of executives, middle managers and supervisors techniques in motivation, organizational development and leadership.
- e. Creating Daily Success – Full-day presentations teach leadership, conflict resolution, time management and customer service skills to all new ROD employees.
- f. Insight Tours – ROD Headquarters employees spend a day with front-counter Field Office personnel in order to better understand both job functions and instill a working enterprise vision of the department.
- g. Department Investigator Orientation Course and Supervisor Investigator Orientation Course where thorough understanding and applications of Department and divisional procedures are provided to mentor and retain staff.
- h. Recruitment, on line testing and transfer capabilities from other state agency classifications have been implemented in further attempts to secure qualified new employees.

CONCLUSION:

Our review revealed that the DMV has policies and procedures well established to achieve the department's goals and mission. The overall operation has adequate administrative and accounting controls in place to identify and mitigate its risks. This review identified appropriate corrective actions to address the challenges. It is critical that management take immediate steps to ensure that daily operations are well managed to minimize risks, implement effective controls, and ensure effective governance to safeguard the department's assets. Implementing this report's corrective actions should result in better compliance with current business operations and enforcement of policies designed to protect departmental assets, and best utilization of public funds. The IAB will continue to monitor these activities to ensure that the corrective actions have been implemented.

The DMV's executive staff is committed to full compliance with all of our statutory obligations. Any questions concerning this report may be directed to Christiana Mbome at 916-657-1722 or CMbome@DMV.CA.gov.

Sincerely,

A handwritten signature in cursive script, appearing to read 'CMbome', written in dark ink.

CHRISTIANA MBOME, Manager
Internal Audits Branch

APPENDIX A
2009 BIENNIAL FISMA REPORT
DEPARTMENT OF MOTOR VEHICLES

List of audits performed based on the department-wide risk assessment:

1. Driver License and Identification Card Issuance Compliance Review
2. Vehicle and Vessel Registration Processing Audit
3. Revenue Collection Processing Cycle
4. Accountable Items Program Audit
5. Business Partner Automation Program Audit
6. Automobile Clubs Compliance Audit
7. Registration Processing Unit (RPU) I
8. Contracts Services
9. Revenue Transactions Audit (per Bureau of State Audits agreement)